

RD AN No. 3705 (1965-B)  
February 8, 2002

TO: State Directors  
Rural Development

FROM: James C. Alsop  
Acting Administrator  
Rural Housing Service

*(Signed by James C. Alsop)*

SUBJECT: Multi-Family Housing Workout Plan

**PURPOSE AND INTENDED OUTCOME:**

The purpose of this Administrative Notice (AN) is to identify the priorities of various workout plan approaches. The intended outcome is to be consistent in the use of workout plans.

**COMPARISON WITH PREVIOUS AN:**

This AN reissues the principles set out earlier in RD AN No. 3597(1965-B), dated December 7, 2000.

**IMPLEMENTATION RESPONSIBILITIES:**

State Directors should ensure their staffs are knowledgeable of the workout plan priorities set out herein.

Workout plans are needed when borrowers deviate from their responsibilities or properties become troubled. Workout plans are required whenever restoring compliance with Agency regulations is unlikely to be achieved within a typical 12-month budget cycle using normal servicing techniques. Prior Agency consent is required. There are a variety of techniques to develop workout plans. However, experience shows that workout plans often rely on several broad approaches. The priority preferences for consideration of workout plan approaches are as follows:

EXPIRATION DATE: January 31, 2003

FILING INSTRUCTIONS:  
Preceding RD  
Instruction 1965-B

1. **Use of existing project resources.** The preferred method to use is when regulatory compliance can be restored with the use of the project's own financial resources. Such workout plans may involve using shelter cost changes, reserve funds, expenditure reduction measures, and reamortization actions.

2. **Use of subsequent loan funds.** When adequate Rural Housing Service loan funds are available, and the project is financially capable of carrying out successful operations with an increased debt load, restoration of compliance by using subsequent loan funds is desirable.

3. **Use of non-Agency financial assistance.** When adequate Rural Housing Service funding is not available or not adequate, non-Agency financial assistance may be used. The project must be financially capable of carrying out successful operations with an increased debt load. In using such sources, the following priorities should be considered:

- a. Soft second financing not requiring repayment.
- b. Unsecured loans.
- c. Loans with a junior lien position.
- d. Loans with a parity lien, when legally possible.
- e. Loans requiring the Rural Housing Service to subordinate its lien position.

4. **Sale of a portion of the security property.** The sale of a portion of the security property may be warranted when the property being considered is not needed. An example is when a project's existing scale of operation is unable to be successful, but a smaller scale of operation is projected to be feasible. Tenant displacement issues should be carefully considered and minimized. Letters of priority entitlement should be issued to any displaced tenant household.

5. **Write-down of debt and continuation with new borrower.** If warranted and verified through an as-is appraisal, debt may be written down at the time of transfer to a new borrower.

Questions concerning this AN may be directed to James E. Vollmer of the Multi-Housing Servicing Portfolio Management Division at (202) 720-1060.